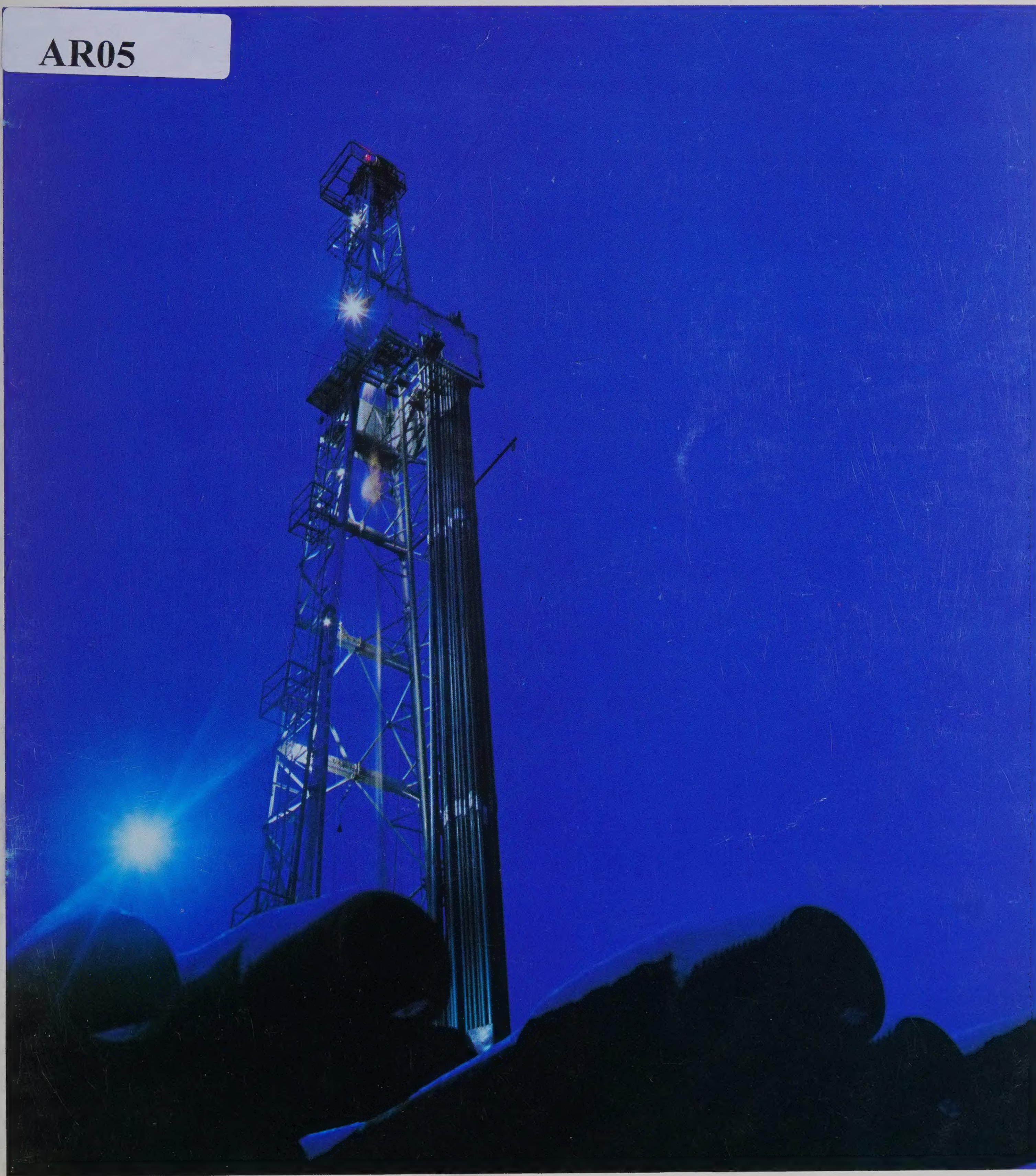
Albany Oil & Gas Limited Annual Report 1971



Albany Oil & Gas Limited Annual Report 1971

To The Shareholders

The past year has been the most active and interesting in the history of Albany Oil & Gas Limited.

The corporate reorganization in February of 1971 resulted in a departure from the former hard rock mineral exploration and development objectives of the Company. Your directors, while maintaining an active role in selective mineral properties, have diversified the interests of the Company by pursuing a policy of developing a sound financial base through the purchase of proven oil and gas reserves, development of semi-proven prospects, and by the acquisition of companies which would assist Albany in meeting these objectives. To this end Albany has acquired gas reserves in Ontario and in an extension of the Medicine Hat gas field in southwest Saskatchewan. Discussions relative to the acquisition of several companies are currently in progress, the results of which will be announced to the shareholders when available.

I am pleased to welcome Messrs. Adam A. W. Kryczka and Kenneth P. Bottoms to the Board of Directors.

Mr. Kryczka graduated from the University of Alberta in 1958 with a Master of Science degree in geology. From 1958 to 1966 he served in various capacities with three major oil companies, Pan American Petroleum, Canadian Export Gas & Oil Limited and Midwest Oil Corporation. He was a co-founder of Resource Management Ltd. which in 1968 merged into Stampede Oils Ltd. Mr Kryczka served as President and Director of Stampede until the 1968 merger which resulted in his appointment as President and Director of United Bata Resources Limited. Presently he is the President of United Bata Resources (Canada) Ltd. and a Vice-President of Pan Ocean Oil Corporation.

Mr. Bottoms, a native of Windsor Ontario, graduated from the University of Michigan in 1959 with a Master of Science degree in geology. From 1959 to 1962 he was employed by Texaco, Inc., in Midland, Texas. He joined Midwest Oil Corporation in 1962 and was transferred to Calgary in 1964 to manage Midwest's Canadian operations. In 1966 he became a co-founder of Resource Management Ltd. which in 1968 was merged into Stampede Oils Ltd. He served this company as co-manager and Secretary-Treasurer. The 1968 merger of Stampede Oils Ltd. resulted in his appointment as Vice-President and Director of United Bata Resources Ltd. He served in a number of executive capacities prior to his being elected to the Albany Board of Directors in 1971.

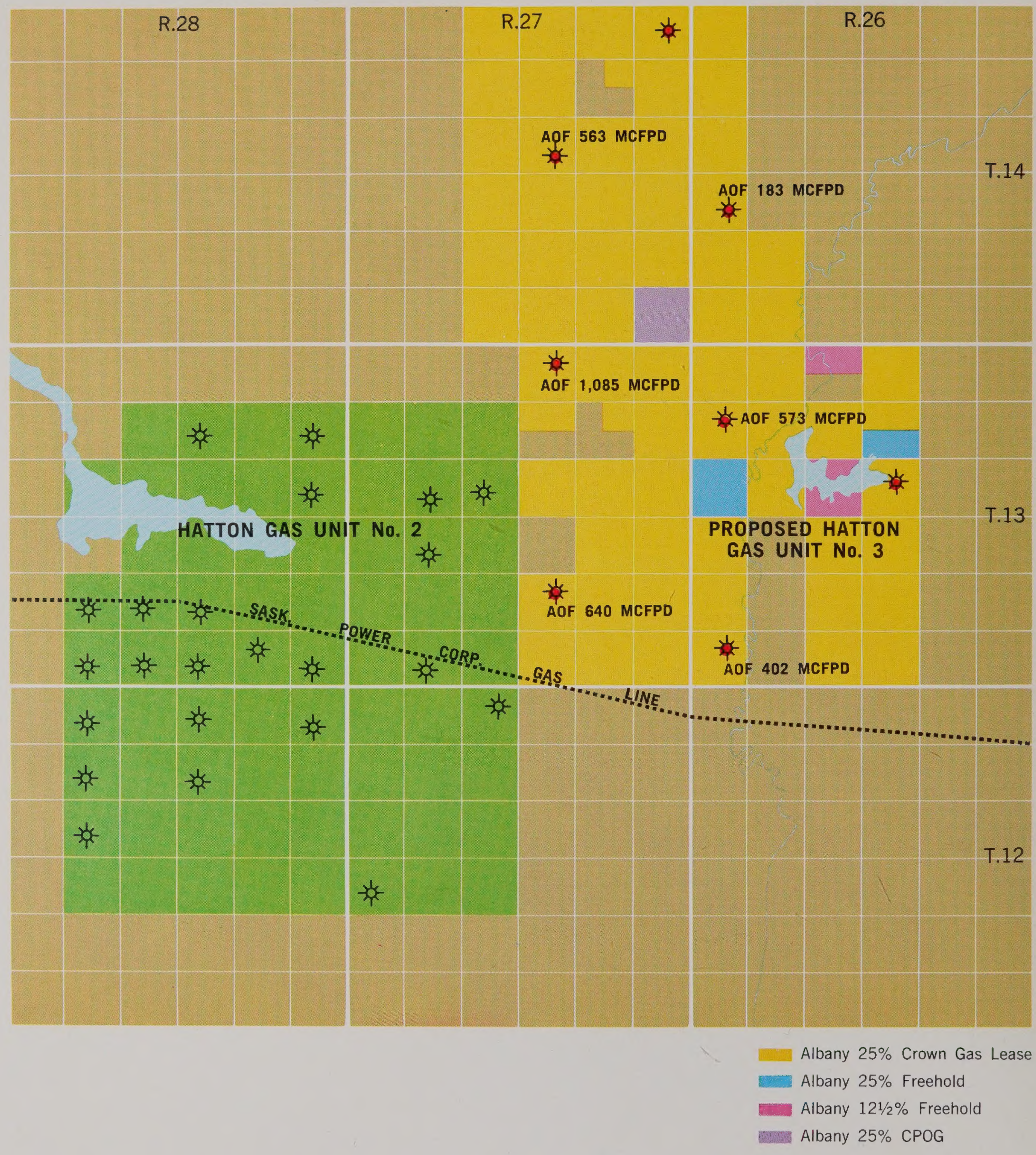
Both gentlemen have a wealth of experience in the petroleum industry and their assistance to date has been invaluable to the Company.

In May of this year Mr. Ronald W. A. Boal joined the Company as Treasurer. Mr. Boal graduated from Lethbridge Collegiate Institute in 1961 at which time he joined the firm of Thorne, Gunn, Helliwell and Christenson, Chartered Accountants. In 1967 he was admitted to the Alberta and Canadian Institute of Chartered Accountants. He has served as Secretary-Treasurer and Director of several western Canadian public oil companies.

We are looking forward to 1972 as being a year in which we can expect to see unparalleled growth of Albany on a national and international basis in the natural resource industry.

Respectfully submitted,

Gordon R. Travis,
President.


R.28
R.27
R.26
T.14
T.13
T.12
AOF 563 MCFPD
AOF 183 MCFPD
AOF 1,085 MCFPD
AOF 573 MCFPD
HATTON GAS UNIT No. 2
PROPOSED HATTON GAS UNIT No. 3
AOF 640 MCFPD
AOF 402 MCFPD
SASK. POWER CORP. GAS LINE
Albany 25% Crown Gas Lease
Albany 25% Freehold
Albany 12½% Freehold
Albany 25% CPOG

EXPLORATION HIGHLIGHTS

Field, British Columbia — Titanium Project

Albany has obtained an undivided seventy percent interest in a large surface deposit of titaniferous magnetite. The project area which is blanketed by 49 claims and two placer leases, is located near the headwaters of the Moose Creek valley, approximately 25 miles from the Trans Canada Highway and rail facilities at Field, British Columbia.

Surface geological parties have recently completed a representative sampling and mapping program on the property and results obtained thus far suggest the possibility that development of the ore body may be feasible. A thorough surface geological program is being planned to more accurately estimate the recoverable tonnage and to gather sufficient samples for comprehensive mineralogical studies.

Work completed thus far indicates a surface ore body and black sand placer deposit of more than 25 million tons with an upward potential size of several times this amount. From assays, polished and thin section analysis and x-ray determinations an average of 10% recoverable titanium oxide (TiO_2) has been indicated.

The demand for metalic titanium has increased markedly over the past few years for use in the construction of jumbo and supersonic jet aircraft. The metal, which is of very light weight has an extremely high melting point, and is stronger than steel. Titanium oxide has a wide application as a pigment in paints and enamels.

It is premature to estimate the value of the Moose Creek deposit in that numerous factors have yet to be determined as to the overall average grade and mining and processing costs. However, if subsequent results support the data obtained thus far, the property may develop into one of prime importance to Albany.

Foothills Exploration

Albany is actively seeking farmouts of a number of well-documented foothills gas prospects which offer the potential of major gas reserves. Exploration in the Alberta and British Columbia foothills is increasing steadily in response to the rapidly growing demand for gas which has outrun even the most optimistic forecasts of a few years ago. Wellhead gas prices have almost doubled in the last three years and further increases can be expected.

Albany will continue to pursue proven situations concurrently with the search for larger reservoirs in the foothills of Alberta.

Hatton, Saskatchewan

Albany holds a 25% interest in partnership with Joe Phillips Ltd., (a wholly-owned subsidiary of Canadian Breweries Ltd.) and Southeastern Development Company of Dallas in 48,000 acres of proven gas reserves in southwest Saskatchewan on the eastern extremity of the Medicine Hat gas field. Eight successful wells were previously drilled and an additional twenty wells are planned by the partners for immediate drilling. Sixty billion cubic feet of recoverable gas are projected from the Medicine Hat Sand reservior. Production from the Hatton Project will be assigned under contract to Saskatchewan Power Corporation. Albany's interest in the acreage now under lease is expected to generate an income of approximately $100,000.00 per annum.

To increase our reserves in this area Albany and partners are currently negotiating with Saskatchewan Power for the acquisition of twelve additional semi-proven sections adjoining the Hatton acreage to the west.

Senlac Area, Saskatchewan

Since 1969, Albany has maintained a 32½% net working interest in 2,240 acres of proven heavy oil reserves in the Dina Pool of the Senlac field. Reservoir engineering reports indicate more than 126,873,000 barrels of oil in place, of which 6,343,700 are considered recoverable. Primary production methods, however, have been unsatisfactory to date and secondary heavy oil recovery techniques are being considered. The proven reserves constitute a very large asset and it is hoped that the reservoir will prove amenable to steam injection or other acceptable heavy oil recovery methods in the near future.

Blondeau Township, Quebec

In May 1968 Albany acquired all the outstanding shares of Conrego Nickel Mines Limited, the major asset of which was the mineral claim block in Blondeau Township, Quebec.

At that time Conrego had invested a substantial sum in exploration resulting in the discovery of a nickel-copper ore body of approximately 1.25 million tons grading .65% copper and .59% nickel with some values in precious metals.

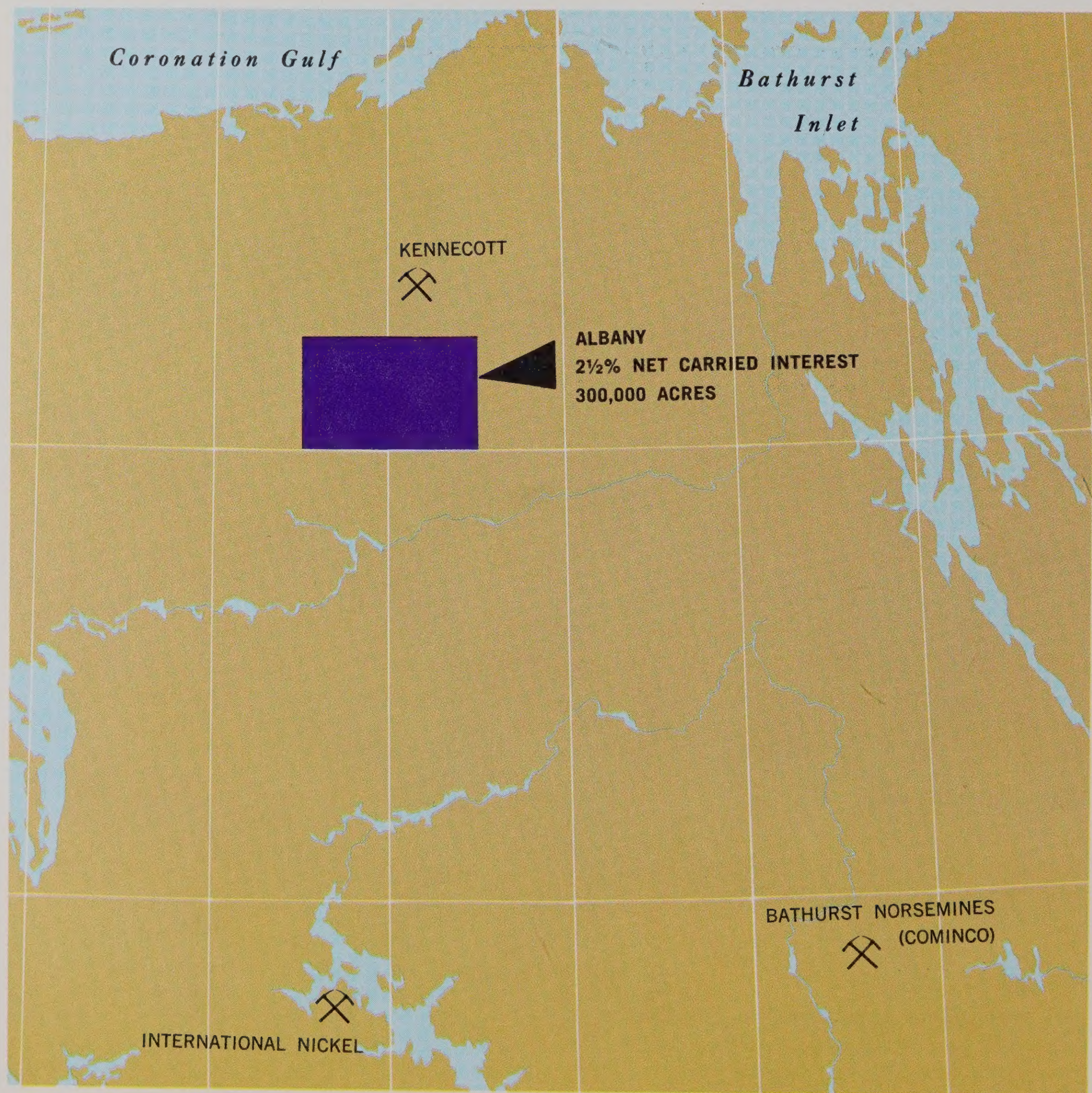
Since the acquisition of Conrego, additional exploration, assaying and extensive metallurgical test work have been conducted. The most recent studies indicate that there are no major metallurgical problems associated with the production of a saleable nickel-copper concentrate. The known ore body is open to depth and to the west and increased tonnage is inferred, but a major production investment will not be warranted until additional reserves are proven.

The Company does not intend at this time to commit further exploration and development funds for the Blondeau property. Negotiations are however, currently in progress with other interested companies for additional diamond drilling to prove up increased tonnage at no cost to Albany.

James River Area — Northwest Territories — Prospecting Permits 270 and 271

Albany holds a net 2½% carried working interest in approximately 300,000 acres of prospective mineral permits 330 miles north of Yellowknife in the Northwest Territories on which a $40,000.00 surface geological program is currently being conducted. Geophysical anomalies together with high grade samples of silver, lead, zinc and copper have been mapped in an ideal geologic setting that offers unlimited potential.

Upon completion of the initial work program on the property, senior financing will be sought to carry out a more comprehensive evaluation of the property. Albany's interest of 2½% is non-reducible and bears no cost through a total expenditure of approximately one million dollars, after which time, we will be responsible for 2½% of subsequent costs.



Italy and the Italian Adriatic — Pollutri and BR-40-BL Permits

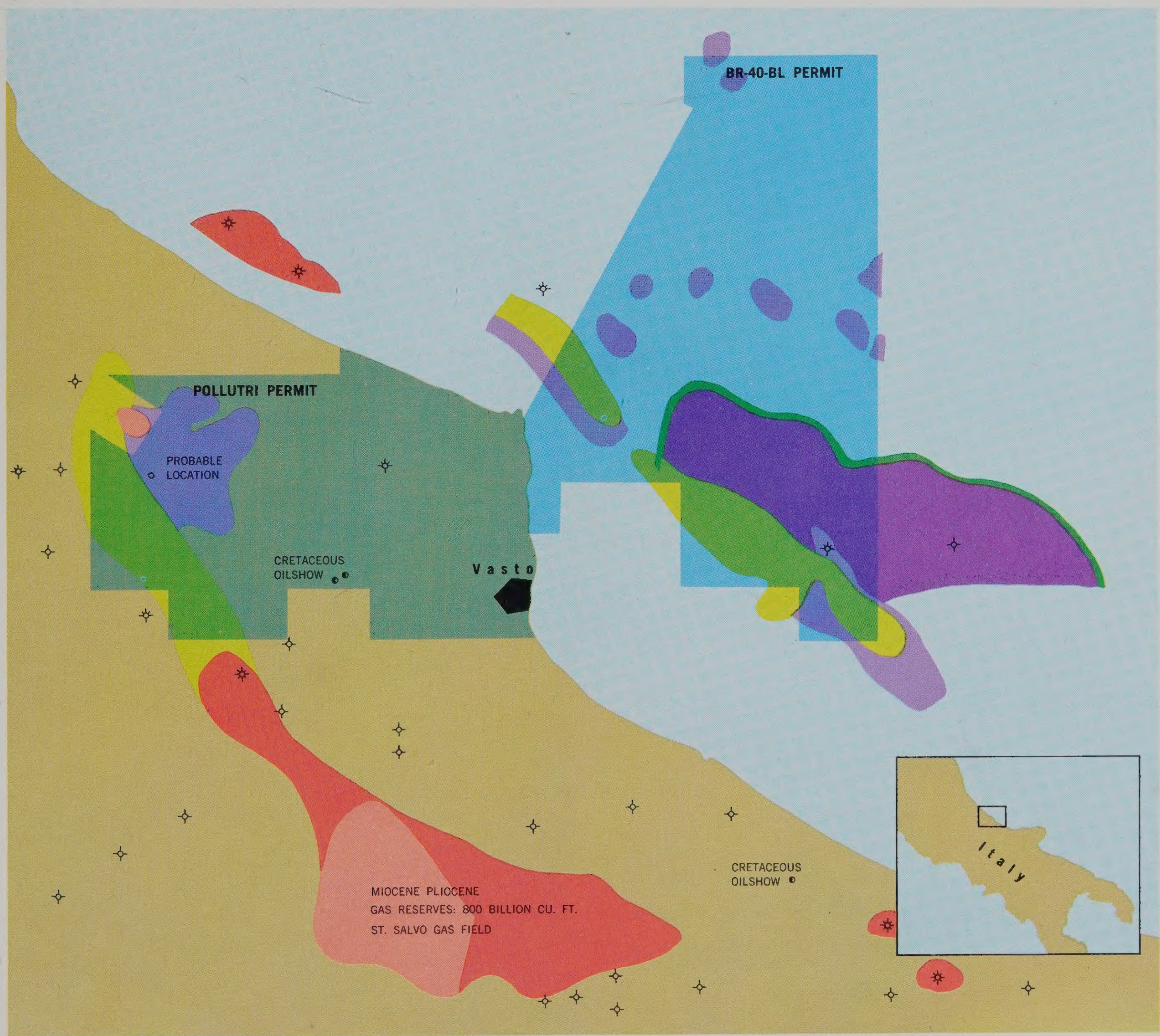
Subject to approval by regulatory bodies Albany has acquired a 10% working interest in 73,490 acres on the southwest coast of Italy and offshore in the Italian Adriatic. Two years of exploration work have been conducted on the permits by a group of companies which include Canadian Industrial Gas & Oil, Sunlite Oils and other independent Canadian oil companies. A farmout to an American Oil company is being negotiated on the Pollutri permit on a basis which will leave Albany with a 2½% net carried working interest in the well, a 2½% net working interest in further drilling on the Pollutri permit lands, and a 10% net working interest in the offshore BR-40-BL acreage block.

Gas in Pliocene Sand

Gas in Miocene Carbonates

PROSPECTS:

Cretaceous Gas	Gas Well
Cretaceous Oil	Well with Gas Shows
Miocene Gas	Well with Oil Shows
Pliocene Gas	Dry Hole

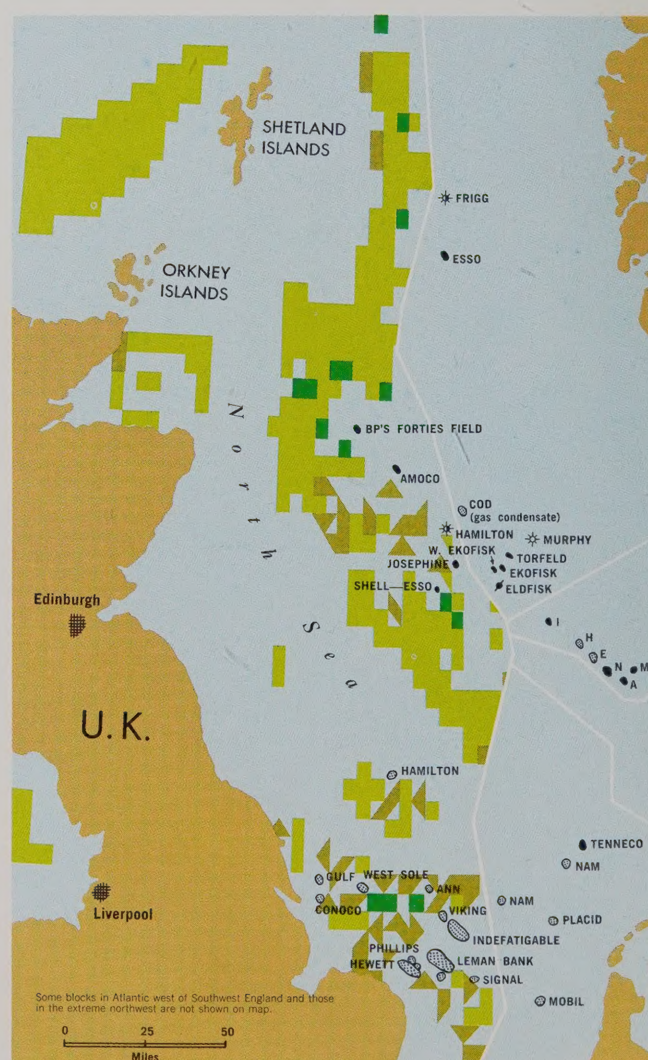


North Sea Permit Applications

Albany has formed a wholly-owned subsidiary company in Great Britain for the purpose of participating in the application for North Sea permits at a land sale to be held in London on August 20, 1971. Albany's interest is not fixed at present, but a maximum of 20% is planned in a consortium of Canadian, U.S. and British companies headed by Ball & Collins (Oil & Gas) Limited of London, which will be applying for a number of 640,000 acre concession blocks.

The North Sea has recently become a significant oil province as well as an established gas rich basin, with fourteen known oil fields currently being developed and several new major oil discoveries extending the productive limits of the basin in all directions.

The results of the applications will be announced shortly after August 20, 1971. Success in obtaining one or some of the exploration concessions will add considerably to Albany's petroleum and natural gas exploration potential in areas of major reserves.



Blocks up for tender

Blocks up for public auction

Blocks or half-blocks up for tender as one unit

Oil field

Gas field

FINANCIAL HIGHLIGHTS

The reorganization and new corporate philosophy has resulted in a change of accounting and reporting methods regarding exploration, pre-production and development expenditures. The effect of this change has resulted in a charge to the deficit account in the current year of approximately one and one half million dollars. This amount represents the total investment in all projects commenced by the company prior to the reorganization, the most significant of which was approximately one million dollars invested in the company's Blondeau Township, nickel-copper claims. Although management is of the opinion that the Blondeau Township claims have proven potential, the company was obliged to write down the investment in the property so as to conform with the accounting practices outlined in Note 3 to the financial statements.

In March an underwriting was successfully completed which netted the company $104,000.00. The proceeds were used to augment working capital, maintain properties in good standing, purchase semiproven gas leases and pay the reorganization and other corporate expenses.

The shareholders have been asked to approve a stock purchase plan involving 600,000 common shares at a price of forty cents per share, and an employee incentive stock option plan involving 240,000 shares at fifty cents per share. If these plans are approved and the stock options exercised, the company will receive a total of $360,000 during the next three years.

During the year the company altered its share capital by increasing the authorized common shares and by creating one dollar par value convertible preferred shares. Complete details are contained in Note 5 to the financial statements. The revised share structure will permit maximum flexibility in implementing future operations.

The working capital and cash flow position of the company is anticipated to increase significantly during the year through the sale of production from the Ontario and Saskatchewan properties and also, if successful, from the corporate acquisitions presently planned.

Albany
Oil & Gas Limited
and subsidiary companies
(formerly Kelly Lake Nickel Mines Limited)
(Incorporated under the laws of the Province of Manitoba)

Consolidated Balance Sheet - May 31, 1971

(with comparative figures at May 31, 1970)

Assets

	1971	1970
CURRENT ASSETS		
Cash and short-term deposits	$ 45,638	$ 20,000
Other deposit	—	1,000
Accounts receivable	128	2,813
	45,766	23,813
INVESTMENTS IN OTHER COMPANIES (no quoted market value) (note 2)	20,378	20,378
CAPITAL ASSETS (note 3)		
Petroleum and natural gas interests, at cost	135,113	76,135
Mineral claims	16,400	461,987
Deferred mining exploration and administration expenses	—	1,005,934
	151,513	1,544,056
	$ 217,657	$ 1,588,247

Liabilities

	1971	1970
CURRENT LIABILITIES		
Bank advances	$ —	$ 9,003
Accounts payable and accrued liabilities	12,183	27,016
Principal due within one year on long-term debt	25,000	—
	37,183	36,019
LONG-TERM DEBT (note 4)	60,970	—
INTEREST OF MINORITY SHAREHOLDER IN SUBSIDIARY COMPANY	1,247	3,223

Shareholders' Equity

	1971	1970
CAPITAL STOCK (notes 4 and 5)		
Authorized		
5,000,000 8% Non-cumulative redeemable, convertible, voting preference shares par value $1 each		
10,000,000 Common shares without par value		
Issued		
2,730,714 Common shares (1970 - 2,150,714)	1,609,005	1,467,005
RETAINED EARNINGS (DEFICIT)	(1,490,748)	82,000
	118,257	1,549,005
CONTINGENT LIABILITY (note 7)	$ 217,657	$ 1,588,247

Approved by the Board
GORDON R. TRAVIS, Director
KENNETH P. BOTTOMS, Director

Consolidated Statement of Deficit

Year Ended May 31, 1971

(with comparative figures for 1970)

	1971	1970
Retained earnings at beginning of year	$ 82,000	$ 87,179
Loss on sale of investments	—	5,179
Deferred mining, exploration and administration expenses written off (note 3)	1,064,987	—
Mineral claims written down, less minority interest $1,976 (note 3)	443,611	—
Petroleum and natural gas interests written off (note 3)	64,150	—
	1,572,748	5,179
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$(1,490,748)	$ 82,000

Consolidated Statement of Source and Application of Funds

Year Ended May 31, 1971

(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS		
Refund of deposits on drilling agreements	$ —	$ 1,150
Issue of capital stock (note 5)	142,000	—
Advances from General Resources Development Limited	20,970	—
Notes payable	65,000	—
	227,970	1,150
APPLICATION OF FUNDS		
Exploration and administration expenses	59,053	117,302
Production equipment	1,800	—
Additions to petroleum and natural gas interests	121,328	45,596
Loss on sale of investments	—	5,179
Principal due within one year on long-term debt	25,000	—
	207,181	168,007
INCREASE (DECREASE) IN WORKING CAPITAL	20,789	(166,927)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(12,206)	154,721
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ 8,583	$ (12,206)

Consolidated Statement of Deferred Mining Exploration and Administration Expenses

Year Ended May 31, 1971

Balance, May 31, 1970		$ 1,005,934
Expended during the year		
Exploration		
Assaying and testing	$ (400)	
Consulting fees	3,798	
Engineering and geological reports	490	
Licenses, taxes and recording fees	3,843	
Salaries, wages and employee benefits	9,647	
Surveying, exploration, drilling and sundry development	(11,093)	
	6,285	
Administration		
Stock exchange listing	1,900	
Professional services	12,466	
Management and administration services	12,555	
Office expenses	7,984	
Registrar and transfer agents fees	3,758	
Travel	14,982	
Sundry income	(877)	
	52,768	59,053
		1,064,987
Deduct written off		1,064,987
Balance, May 31, 1971 (note 3)		$ —

Notes to Consolidated Financial Statements

May 31, 1971

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Albany Oil & Gas Limited and its subsidiaries, Conrego Nickel Mines Limited (wholly owned) and Soab Lake Mines Limited (90% owned).

2. INVESTMENT IN OTHER COMPANIES

	1971	1970
269,998 Shares, Gold Island Mining Company Limited, at nominal value	$ 1	$ 1
79,178 Shares, Portage Avenue Gold Mines Limited, at cost	1,375	1,375
135,000 Shares, Westrim Mining Corporation Limited, at cost	19,000	19,000
Sundry	2	2
	$20,378	$20,378

3. CAPITAL ASSETS

Petroleum and Natural Gas interests

	1971	1970
Lease and development expenditures	$133,313	$76,135
Production equipment	1,800	—
	$135,113	$76,135

Accounting Practice

(a) Unproductive lease costs and applicable deferred development expenditures are written off when properties are surrendered.

(b) Depletion of productive lease and development expenditures will be provided on a unit of production basis when production commences.

(c) Depreciation of production equipment will be provided for over the estimated useful life when production commences.

(d) Mineral claims have been written-down to $100 per claim, which represents the estimated staking costs. The costs of unproductive properties will be written off when the properties are abandoned.

(e) Deferred mining exploration and administration expenses to May 31, 1971 have been charged to deficit.

4. LONG-TERM DEBT

Advances from General Resources Development Limited	$20,970
5½% Notes payable (secured by certain petroleum and natural gas interests)	65,000
	85,970
Less principal included in current liabilities	25,000
	$60,970

Subsequent to the year-end the company agreed to issue 42,000 common shares at 50¢ per share in settlement of the debt to General Resources Development Limited.

Principal due on the 5½% notes payable is as follows:

March 15, 1972	$25,000
March 15, 1973	25,000
March 15, 1974	15,000

5. CAPITAL STOCK

By supplementary letters patent dated March 31, 1971 the authorized capital was changed as follows:

(a) Designate the issued and unissued shares without par value in the capital of the company as common shares without par value.

(b) Increase the number of common shares without par value from 5,000,000 to 10,000,000.

(c) The creation of 5,000,000 8% non-cumulative redeemable convertible voting preference shares with a par value of $1 per share.

Fully paid preference shares may be converted into common shares as follows:

On or before December 31, 1972, 1 preference share for 1 common share;

On or before December 31, 1974, 1½ preference shares for 1 common share;

On or before December 31, 1976, 2 preference shares for 1 common share.

During the year ended May 31, 1971 the company issued 580,000 common shares as follows:

	Shares	Amount
Cash	400,000	$104,000
Payment of account payable	20,000	6,000
Petroleum and natural gas interests	160,000	32,000
	580,000	$142,000

At May 31, 1971 the president had an option to purchase 80,000 common shares at 50¢ per share, exercisable 20,000 shares on or before December 31 for each of the years 1971 to 1974. The terms of this option are to be amended to coincide with the terms of the options to two officers noted below.

The directors granted stock options to two officers of the company to acquire a total of 160,000 shares at 50¢ per share exercisable on a cumulative basis at the rate of 60,000 shares on or before August 1, 1972 and 50,000 shares on or before August 1 for each of the years 1973 and 1974. These options were granted subject to execution of formal agreements and approval by regulatory bodies.

6. STATUTORY INFORMATION

Remuneration paid to directors and senior officers for the year ended May 31, 1971 amounted to $16,026, (1970 - $4,000).

7. CONTINGENT LIABILITY

An action has been instituted against the company, claiming $3,209 for services rendered. The company is disputing the action and counsel is of the opinion that the company has a good defence.

Auditors' Report

To the Shareholders of
Albany Oil & Gas Limited
(formerly Kelly Lake Nickel Mines Limited)

We have examined the consolidated balance sheet of Albany Oil & Gas Limited and subsidiary companies as at May 31, 1971 and the consolidated statements of deferred mining exploration and administration expenses, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON

Calgary, Alberta
July 9, 1971

Chartered Accountants

Directors

Jules E. Baert
Winnipeg, Manitoba

David A. Balfour
Winnipeg, Manitoba

Kenneth P. Bottoms
Calgary, Alberta

Gary T. Brazzel
Winnipeg, Manitoba

Paul Kreton
Winnipeg, Manitoba

Adam A. W. Kryczka
Calgary, Alberta

Gordon R. Travis
Calgary, Alberta

Officers

Jules E. Baert,
Chairman of the Board

Gordon R. Travis,
President

Gary T. Brazzell,
Secretary

Ronald W. A. Boal,
Treasurer

Transfer Agent and Registrar

Montreal Trust Company
Montreal, Winnipeg, Calgary, Vancouver

Registered Head Office

500 - 213 Notre Dame Avenue, Winnipeg 2, Manitoba

Executive Office

660 One Calgary Place, Calgary 2, Alberta

Auditors

Thorne, Gunn, Helliwell & Christenson,
Calgary, Alberta

Solicitors

Fenerty, McGillivray, Robertson, Prowse, Brennen,
Fraser, Bell & Code,
Calgary, Alberta

Bank

Canadian Imperial Bank of Commerce,
Calgary, Alberta

Stock Exchange Listings

Vancouver Stock Exchange,
Canadian Stock Exchange

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